1974 Annual Report

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rapid-american corporation

Board of Directors

ISIDORE A. BECKER*
President of Rapid-American Corporation; Chairman of the Board of Schenley Industries, Inc. (wholly-owned subsidiary of Rapid-American Corporation); Vice Chairman of the Board of McCrory Corporation (a 62.5% owned subsidiary of Rapid-American Corporation)

HAIM BERNSTEIN
Vice President of Rapid-American Corporation; President of Meridian-York Corporation (real estate and insurance brokerage)

BERNARD KOBROVSKY
Private investor

FRED KORROS
Account executive, Harrison & Co. (stock brokers)

LEONARD C. LANE†
Executive Vice President of Rapid-American Corporation

SAMUEL J. LEVY*
Chairman of the Board of Southern Packaging & Design Corp. (woven labels)

MESHULAM RIKLIS*
Chairman of the Board and Chief Executive Officer of Rapid-American Corporation and McCrory Corporation

PINHAS RIKLIS
Chairman of the Board of Garay & Co., Inc. (ladies' handbags and belts)

LORENCE A. SILVERBERG*
Executive Vice President of McCrory Corporation

† Chairman of the Executive Committee
* Member of the Executive Committee

Corporate Officers

MESHULAM RIKLIS
Chairman of the Board and Chief Executive Officer

ISIDORE A. BECKER
President

LEONARD C. LANE
Executive Vice President

D. IRVING OBROW
Vice President and Treasurer

HAIM BERNSTEIN
Vice President

STUART H. AARONS
Secretary

Corporate Information

Executive Offices
711 Fifth Avenue
New York, N. Y. 10022
Phone: (212) 752-0100

Auditors
Haskins & Sells
2 Broadway
New York, N. Y. 10004

Counsel
General Counsel
Fried, Frank, Harris, Shriver & Jacobson
120 Broadway
New York, N. Y. 10005

Special Counsel
Litigation
Rubin Baum Levin Constant & Friedman
598 Madison Avenue
New York, N. Y. 10022

10-K Report
Rapid-American Corporation's annual report on Form 10-K, as filed with the Securities and Exchange Commission, is available to stockholders free of charge upon written request to: Corporate Secretary, Rapid-American Corporation, 711 Fifth Avenue, New York, New York 10022.

To Our Stockholders:

This has been an exceptionally difficult and challenging year for Rapid-American. Like many U.S. corporations, we were faced with an economic environment characterized by accelerating inflation, soaring interest rates, high levels of unemployment and unsettled international economies all of which had great impact upon our financial results. The detailed financial results for the two years ended January 31, 1975 are presented on the following pages.

During the past year, the results of operations of S. Klein Department Stores, certain of the B.V.D. divisions, Leeds Travelwear and the McCrory Variety Store division were disappointing. We are engaged in a program of positive action in each of these units.

In the menswear division, we have decided to phase out the operations of Anvil Brand, Friedman Marks, Meadow Sportswear and Almar Rainwear. We have also strengthened the managements of the B.V.D. underwear division and Fordham-Bardell shirt division and have embarked on a new operation of a designer collection of menswear under the Halston label.

In the Variety Store division, we have reorganized management, initiated a program aimed at lowering inventory levels, systematically eliminating unprofitable stores and controlling costs in order to restore the division's profitability.

Lerner Shops and OTASCO performed well and reported approximately the same earnings in each of the last two fiscal years.

In the year ended January 31, 1975 S. Klein showed an operating loss of approximately $8.2 million after income tax benefit. The McCrory Board of Directors accepted its management's recommendation to completely phase out operations of S. Klein. Accordingly, a provision of $19.7 million (after related income tax benefit and minority interest) mainly for estimated losses to be incurred in connection with this program has been established in our financial statements for the last fiscal year. The elimination of S. Klein's operation is expected to have a positive effect on future earnings.

Despite the generally adverse economic conditions, Rapid-American's Schenley and Playtex operations were very profitable, although less than the prior year. Leeds incurred heavy losses mainly due to an adjustment in inventory levels because of a change in product mix.

Rapid-American is engaged in negotiations relating to the sale to Esmark, Inc., as of October 31, 1975, of its International Playtex operations, for a proposed purchase price of approximately $210,000,000, comprised of cash, notes and/or other securities of Esmark. The transaction is subject, among other conditions, to Rapid-American making satisfactory arrangements with, and obtaining approval from, its bank lenders.

The Board of Directors of McCrory, our approximately 62% owned subsidiary, and the Board of Directors of Rapid-American, have approved in principle the merger of McCrory with a subsidiary of Rapid-American on the basis of one-half a share of Rapid-American common stock for each share of McCrory common stock. The proposed merger is subject to various events, including final approval of our Board of Directors, consent of bank lenders to both companies, the preparation of definitive agreements, proxy material and a registration statement and stockholder approval. The proxy material which will be mailed to you prior to the special merger meeting will contain considerable additional information.

Our annual meeting of stockholders, usually held on the last Wednesday in May, will consequently be postponed and combined with the special merger meeting to permit us to submit the proposed merger to a vote of the stockholders. The date of the combined meeting will be announced as soon as possible.

We believe that the positive programs which we began in 1974 and are continuing, will help to insure the future success of Rapid-American, and we look forward to reporting an improvement next year.

Sincerely,

ISIDORE A. BECKER,
President

MESHULAM RIKLIS,
Chairman

April 30, 1975

BRIEF DESCRIPTION OF BUSINESS OPERATIONS

Rapid-American's principal lines of business are the production, importation and sale of alcoholic beverages, the manufacture and sale of a variety of consumer products and retail merchandising.

The following table shows the percentage contribution to continuing net sales and operating profit (loss) of Rapid-American for the five years ended January 31, 1975 of each major line of business. Rapid-American incurred a loss from continuing operations for the year ended January 31, 1975, after reflecting certain items set forth in note [3] to the table below.

	1975	1974	1973	1972	1971
Net sales [1]:					
Alcoholic beverages (Schenley)	29.7%	29.3%	31.3%	34.7%	35.4%
Consumer products:					
Playtex [2]	11.7	12.0	11.6	12.1	11.0
Other	8.5	9.0	10.2	11.6	12.3
Retail merchandising (McCrory)	50.1	49.7	46.9	41.6	41.3
	100.0%	100.0%	100.0%	100.0%	100.0%
Operating profit (loss) [1 and 3]:					
Alcoholic beverages (Schenley)	44.7%	30.2%	28.9%	30.0%	33.9%
Consumer products:					
Playtex [2]	31.9	32.4	27.4	28.1	24.8
Other	(17.4)	(2.0)	1.8	1.4	0.7
Retail merchandising (McCrory)	40.8	39.4	41.9	40.5	40.6
	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Operations of Newberry are included only from September 1, 1972, the date of McCrory's acquisition thereof. Due to the seasonal nature of Newberry's operations, the sales and operating profit of Newberry for the five months ended January 31, 1973 represent approximately 48% and 144%, respectively, of the amount of Newberry's sales and operating profit which would have been includable in such table for the year ended January 31, 1973 had the acquisition of Newberry occurred on February 1, 1972.

[2] For information concerning the proposed sale of Playtex see the letter to stockholders and Notes to Financial Statements.

[3] For purposes of the table, operating profit (loss) excludes other income—net and has been taken before deducting interest and debt expense, provision for disposition of certain operations, Federal and foreign income taxes, minority interest, discontinued operations and extraordinary items.

Alcoholic Beverages

Rapid-American, through its subsidiary, Schenley Industries, Inc., is engaged in the production, importation and sale of alcoholic products for beverage purposes, including whiskies, gins, vodkas, rums, brandies, wines, liqueurs, cordials and specialties. Schenley sells domestic alcoholic beverages under a number of brands owned by it, and sells imported alcoholic beverages under brands owned by it or for which it has United States, and in some cases, overseas distribution rights. In the year ended January 31, 1975, the five largest contributors to Schenley's operating income were *Dewar's White Label* Scotch whisky, *Old Charter* and *Ancient Age*, bourbon whiskies, *Mateus* wine and *I. W. Harper* bourbon whiskey. *Dewar's White Label* Scotch whisky and *Mateus* wine are sold by Schenley under distribution contracts.

Consumer Products

Rapid-American's consumer products group manufactures and sells (a) ladies' foundation garments (bras and girdles), and "Family Products", including disposable baby nursing bottles, latex gloves, tampons and tooth brushes, sold under the "Playtex", and other trademarks (all of which are manufactured by Playtex), (b) ladies' lingerie, sleepwear and undergarments sold under the "Gilead" and other trademarks, (c) popular priced and medium priced suits and sport coats sold by Cross Country Clothes and Joseph H. Cohen & Sons primarily under private labels and under such trademarks as "Botany 500", and others, and since January 1975, a designer collection of men's wear sold by Halston Menswear under the "Halston" trademark, (d) men's and boy's underwear, shirts, sport shirts and ties sold under the trademarks "B.V.D.", "Beau Brummell" and other trademarks; and (e) luggage, bowling bags and golf bags manufactured by Leeds Travelwear primarily under its own trademarks. For information concerning the proposed sale of Playtex to Esmark, Inc., see the letter to stockholders and the notes to the financial statements.

Retail Merchandising

Rapid-American's approximately 62% owned subsidiary, McCrory Corporation, is a broadly based retailing organization. At January 31, 1975, it operated 1,023 variety stores in the United States under various names, including "McCrory", "McLellan", "H. L. Green" and "J. J. Newberry"; a chain of 225 company-owned and 336 franchised retail automotive and home accessories stores under the name "OTASCO Stores"; a chain of 28 "Britts" department stores; 457 retail stores, operating under the name "Lerner Shops", specializing in the sale of women's and children's apparel; and, in Canada, 32 "Harrison's" fabric stores and "Gault Brothers", principally a distributor of hotel-motel supplies. Since the beginning of this past fiscal year, McCrory has taken various steps to dispose of certain of its operations. These steps have included the closing of all of its 25 United Stores, a variety store chain in Canada, four Britts department stores in Canada, the sale of all of its 82 Sweet Sixteen stores in Canada and, in the United States, the phasing out of its S. Klein department stores.

FIVE YEAR SUMMARY OF CONSOLIDATED OPERATIONS

	Fiscal Year Ended January 31,				
	(In thousands, except per share amounts)				
	1975	1974	1973	1972	1971
Revenues	$2,571,817	$2,548,925	$2,228,045	$1,845,608	$1,745,343
Costs and expenses	2,452,260*	2,358,893	2,063,881	1,710,898	1,622,412
Interest and debt expense	146,038	106,575	77,297	72,351	79,299
Federal and foreign income taxes (benefit)	(9,524)	33,309	35,435	26,570	21,179
Minority interest	1,719	10,040	22,365	19,814	17,390
	2,590,493	2,508,817	2,198,978	1,829,633	1,740,280
Income (loss) from continuing operations	(18,676)	40,108	29,067	15,975	5,063
Income (loss) from discontinued operations	(24,789)	(10,579)	765	7,137	9,856
Income (loss) before extraordinary items	(43,465)	29,529	29,832	23,112	14,919
Extraordinary items	—	—	(8,365)	2,463	(1,889)
Net income (loss)	(43,465)	29,529	21,467	25,575	13,030
Consolidated preferred dividend requirements	1,739	2,012	3,253	4,270	5,609
Net income (loss) applicable to common stockholders	$ (45,204)	$ 27,517	$ 18,214	$ 21,305	$ 7,421
Income (loss) per share:					
Primary:					
Continuing operations	$(3.00)	$4.22	$3.24	$1.66	$ (.10)
Discontinued operations	(3.65)	(1.08)	.09	1.06	1.50
Extraordinary items	—	—	(.97)	.36	(.29)
Net income (loss)	$(6.65)	$3.14	$2.36	$3.08	$1.11
Fully diluted:					
Continuing operations	**	$3.44	$2.29	$1.10	$ .09
Discontinued operations	**	(.80)	.04	.65	.74
Extraordinary items	—	—	(.34)	.23	(.25)
Net income (loss)	**	$2.64	$1.99	$1.98	$ .58

* Includes a provision of $10,441,000 for the disposition of certain operations.

** Anti-dilutive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE FIVE YEAR SUMMARY OF CONSOLIDATED OPERATIONS

During the past five fiscal years there have been a significant number of material developments relating to Rapid-American's business and corporate structure, including acquisitions, dispositions and business combinations, which have had a material effect on the consolidated operations.

Rapid-American's results of consolidated operations in its last two fiscal years were materially affected (i) in the year ended January 31, 1975, by a provision for loss related to McCrory's decision to phase-out the operations of S. Klein; (ii) in the prior year, by McCrory's write-off of excess of cost of investment over related equity attributable to S. Klein; and (iii) in both years (and in the year ended January 31, 1973), by S. Klein's operating loss (included in results of discontinued operations). See Note 3 to Financial Statements.

Rapid-American's loss from continuing operations in the year ended January 31, 1975 compared to its income in the prior year resulted principally from (i) losses incurred by those consumer products operations which Rapid-American is disposing of and a provision for losses and expenses relating to the disposition of those operations (see Note 9 to Financial Statements); (ii) general economic conditions which affected the profitability of Playtex, Schenley and McCrory and which were the major factor in losses incurred by Joseph H. Cohen; (iii) increased losses incurred by certain B.V.D. operations, particularly its underwear division, due to production problems and lack of consumer demand (see Note 4 to Financial Statements), and increased losses incurred by Leeds due to lack of consumer demand and a change in the product mix, which resulted in increased inventory levels; and (iv) an increase in interest expense stemming from higher interest rates and increased debt levels which, at Schenley, was due largely to the maintenance of higher inventory levels caused by price increases in raw materials.

McCrory's decrease in income from continuing operations for the year ended January 31, 1975 compared to the prior year resulted primarily from (i) the increased costs of doing business caused by inflationary pressures as well as general economic conditions which caused, in part, heavier than normal markdowns, particularly in the Variety Stores and Britts Department Stores Divisions, where a decline in sales was experienced; and (ii) increased interest and debt expenses, principally because of higher interest rates and higher debt levels. The higher debt levels stemmed in part from the debt issued in connection with the elimination of the minority interest in Lerner, which substantially offset the interest and debt expense related to that debt.

The increase in Rapid-American's income from continuing operations before extraordinary items for the year ended January 31, 1974 from such income in the preceding years resulted principally from the improved operating performances of Schenley and Playtex, and the fact that Rapid-American had a 100% equity in such earnings for the full year as a result of the merger of Rapid-American and Glen Alden, reduced by the additional interest expense and amortization of excess cost incurred as a result of the acquisition of the minority interest in Glen Alden.

The increase in revenues and costs and expenses during the two years ended January 31, 1974, were primarily attributable to the acquisition of Newberry by McCrory in September 1972.

In the year ended January 31, 1974, interest and debt expense increased because of higher interest rates, additional bank loans and amortization of debt discount. The provision for income taxes decreased primarily because of lower taxable earnings.

The increase in income from continuing operations before extraordinary items for the year ended January 31, 1973 from that for the preceding years resulted primarily from the improved operating performances of Schenley and Playtex and Rapid-American's increased percentage of its equity in such earnings (74% to 100%) resulting from the merger of Rapid-American and Glen Alden.

The increase in income from continuing operations before extraordinary items for the year ended January 31, 1972 from that for the prior

year resulted principally from improved operating performances of Schenley and Playtex. During the year ended January 31, 1971, the sales and profitability of Rapid-American's men's clothing operations were adversely affected primarily due to the economic recession and a marked increase in competition from low-priced imports.

For the two years ended January 31, 1972, the disparity between Rapid-American's primary and fully diluted earnings per share resulted principally from the reduction in Rapid-American's equity in its subsidiaries' earnings due to such subsidiaries' dilution, which was substantially eliminated by the merger of Rapid-American and Glen Alden on November 3, 1972, and the shares of Rapid-American assumed to be issued upon conversion of convertible securities of Rapid-American.

PER SHARE MARKET PRICES AND DIVIDEND INFORMATION

The high and low sales prices and quarterly dividends paid (see Note 7 to Financial Statements) for Rapid-American Common and Preferred Stocks traded on the New York Stock Exchange (trading symbol: RPD) during the past two fiscal years were as follows:

	Fiscal Year Ended January 31,					
	1975			1974		
	Market Price		Dividends Paid	Market Price		Dividends Paid
	High	Low		High	Low	
Common Stock						
1st Quarter	16⅛	12⅝	$ .25	18⅞	15	$ .12½
2nd Quarter	13½	7¼	.25	17⅛	12⅛	.12½
3rd Quarter	9⅞	6⅜	.25	17⅜	14⅜	.12½
4th Quarter	9⅞	5	.25	17	10¼	.25
For the Year	16⅛	5	$1.00	18⅞	10¼	$ .62½
$3 Preferred Stock						
1st Quarter	51½	41	$ .75	65	54⅛	$ .75
2nd Quarter	41	25	.75	55	47	.75
3rd Quarter	30	24½	.75	55	46	.75
4th Quarter	30	19	.75	51	38	.75
For the Year	51½	19	$3.00	65	38	$3.00
$2.25 Preferred Stock						
1st Quarter	45	40½	$ .56¼	54⅜	46	$ .56¼
2nd Quarter	40	24	.56¼	48	38½	.56¼
3rd Quarter	26	19½	.56¼	50½	43⅛	.56¼
4th Quarter	26	14⅜	.56¼	50	33	.56¼
For the Year	45	14⅜	$2.25	54⅜	33	$2.25

Rapid-American's $3.15 Preferred Stock is traded in the over-the-counter market, but no active trading market is maintained. Quarterly dividends of $.78¾ have been paid in each of the last two fiscal years.

Financial Statements

rapid-american
corporation

CONSOLIDATED BALANCE SHEETS

ASSETS	January 31, 1975	1974
Current Assets:		
Cash, including certificates of deposit ($20,377,000 and $15,514,000)	$ 78,803,000	$ 67,322,000
Trade receivables, less allowances ($7,705,000 and $7,288,000)	204,060,000	205,070,000
Inventories	679,374,000	687,659,000
Other receivables, prepaid expenses, etc.	43,104,000	40,299,000
Net assets held for disposal	2,487,000	—
	1,007,828,000	**1,000,350,000**
Investments and Advances:		
Long John International Limited, at equity	23,225,000	22,182,000
McCrory Credit Corporation, at equity	17,846,000	16,358,000
Other investments, etc., substantially at cost	18,582,000	7,412,000
	59,653,000	**45,952,000**
Property, Plant and Equipment	543,474,000	578,603,000
Less accumulated depreciation and amortization	306,199,000	322,047,000
	237,275,000	**256,556,000**
Other Assets:		
Excess of cost of investments over related equities	337,473,000	343,948,000
Franchises	49,077,000	49,476,000
Mortgages and sundry	36,935,000	44,627,000
Deferred future Federal income tax benefits	28,326,000	—
Deferred charges	10,736,000	14,626,000
Net assets held for disposal	9,453,000	—
	472,000,000	**452,677,000**
	$1,776,756,000	**$1,755,535,000**

See Schedules and Notes to Financial Statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	January 31, 1975	1974
Current Liabilities:		
Short-term debt	$ 237,479,000	$ 139,601,000
Current maturities of long-term and convertible debt	34,096,000	6,271,000
Accounts payable	85,124,000	125,278,000
Accrued expenses and sundry	158,840,000	144,350,000
Accrued Federal and foreign income taxes	31,181,000	44,015,000
	546,720,000	**459,515,000**
Long-term Debt, less current maturities and unamortized discount	**952,854,000**	**943,557,000**
Deferred Federal and Foreign Income Taxes	**—**	**21,426,000**
Other Non-Current Liabilities	**77,085,000**	**52,740,000**
Minority Interest in Subsidiaries	**26,430,000**	**42,587,000**
Convertible Debt, less current maturities and unamortized discount	**4,367,000**	**13,374,000**
Stockholders' Equity:		
Preferred and preference stocks (aggregate liquidation preference, (1975) $25,021,000 and (1974) $29,045,000)	6,959,000	8,678,000
Common stock, $1 par value, authorized 50,000,000 shares, issued (1975) 6,935,434 shares and (1974) 6,805,363 shares, less treasury stock (1975) 82,459 shares and (1974) 78,684 shares	6,853,000	6,727,000
Additional paid-in capital	198,046,000	198,870,000
Retained earnings	10,453,000	64,385,000
Equity in subsidiary's cost of its treasury stock, subsidiary's carrying value of investment in Rapid-American Corporation common stock (less par value) and warrants and, in 1974, preference stock in treasury at cost	(52,811,000)	(56,324,000)
	169,500,000	**222,336,000**
	$1,776,756,000	**$1,755,535,000**

See Schedules and Notes to Financial Statements.

STATEMENTS OF CONSOLIDATED OPERATIONS

	Year Ended January 31, 1975	1974
Revenues:		
Net sales	$2,560,002,000	$2,529,964,000
Other—net	11,815,000	18,961,000
	2,571,817,000	2,548,925,000
Costs and Expenses:		
Cost of goods sold	1,831,541,000	1,774,409,000
Selling, advertising, general and administrative expenses	585,951,000	561,794,000
Interest and debt expense	146,038,000	106,575,000
Depreciation and amortization	24,327,000	22,690,000
Provision for disposition of certain operations	10,441,000	—
Federal and foreign income taxes (benefit)	(9,524,000)	33,309,000
Minority interest	1,719,000	10,040,000
	2,590,493,000	2,508,817,000
Income (Loss) From Continuing Operations	**(18,676,000)**	**40,108,000**
Discontinued Operations (S. Klein):		
Loss from operations	(5,107,000)	(3,156,000)
Provision for estimated loss in 1975 on phase-out of operations discontinued and, in 1974, write-off of excess cost	(19,682,000)	(7,423,000)
	(24,789,000)	(10,579,000)
Net Income (Loss)	**(43,465,000)**	**29,529,000**
Consolidated preferred dividend requirements	1,739,000	2,012,000
Net Income (Loss) Applicable to Common Stockholders	**$ (45,204,000)**	**$ 27,517,000**
INCOME (LOSS) PER SHARE:		
Primary:		
Continuing operations	$ (3.00)	$4.22
Discontinued operations	(3.65)	(1.08)
Net income (loss)	$ (6.65)	$3.14
Fully diluted:		
Continuing operations	*	$3.44
Discontinued operations	*	(.80)
Net income (loss)	*	$2.64

* Anti-dilutive.

See Schedules and Notes to Financial Statements.

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

For the Two Years Ended January 31, 1975

	Preferred and Preference Stocks	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Securities*
Balance at February 1, 1973	**$10,306,000**	**$8,875,000**	**$282,527,000**	**$50,868,000**	**$(65,728,000)**
Net income				29,529,000	
Dividends:					
On preferred and preference stocks				(1,278,000)	
On common stock ($.625 per share)				(5,065,000)	
Conversion of preferred stocks	(433,000)	266,000	167,000		
Purchase of 7,030,730 redeemable common stock purchase warrants pursuant to cash tender offer and 50,000 warrants in a private transaction			(48,754,000)	(1,011,000)	
Purchase of 2,423,174 shares of common stock pursuant to cash tender offer		(2,423,000)	(35,227,000)		
Redemption of class C preference stock, series 6	(1,195,000)			(1,818,000)	3,005,000
Other		9,000	188,000		
Equity in certain transactions of subsidiaries			(31,000)	(6,840,000)	6,399,000
Balance at January 31, 1974	**8,678,000**	**6,727,000**	**198,870,000**	**64,385,000**	**(56,324,000)**
Net loss				(43,465,000)	
Dividends:					
On preferred and preference stocks				(1,029,000)	
On common stock ($1.00 per share)				(6,884,000)	
Conversion of preferred stocks	(510,000)	126,000	384,000		
Redemption of class C preference stock, series 7	(1,209,000)			(1,838,000)	1,498,000
Other			(30,000)		
Equity in certain transactions of subsidiaries			(1,178,000)	(716,000)	2,015,000
Balance at January 31, 1975	**$6,959,000**	**$6,853,000**	**$198,046,000**	**$10,453,000**	**$(52,811,000)**

* Consists of equity in subsidiaries' cost of their treasury stock, subsidiary's carrying value of investment in Rapid common stock (less par value) and warrants and, prior to January 31, 1975, cost of Rapid's preference stock in treasury.

See Schedules and Notes to Financial Statements.

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

	Year Ended January 31, 1975	1974
Funds Provided:		
Operations:		
Net income (loss)	$(43,465,000)	$ 29,529,000
Items not currently requiring (providing) funds:		
Depreciation and amortization (discount, excess cost, etc.)	41,693,000	36,344,000
Deferred income taxes	(54,301,000)	5,412,000
Write-off of excess cost and miscellaneous investments	6,983,000	7,423,000
Minority interest (less dividends of $2,861,000 and $3,938,000)	(16,026,000)	4,281,000
Provision for store closings	37,477,000	—
Other—net	(1,289,000)	(707,000)
Funds provided (required) by operations	(28,928,000)	82,282,000
Issuance and assumption of long-term debt	33,348,000	51,228,000
Disposals of and reclassification of property, plant and equipment	29,212,000	2,740,000
Issuance of securities in mergers and acquisitions	—	73,481,000
Decrease in other investments	—	288,000
	33,632,000	210,019,000
Funds Applied:		
Reduction in long-term and convertible debt	41,373,000	12,209,000
Additions to property, plant and equipment	36,344,000	38,985,000
Increase in net assets held for disposal	9,453,000	—
Decrease in other non-current liabilities and deferred income taxes	8,584,000	5,243,000
Cash dividends	7,913,000	6,343,000
Acquisition of minority interest of subsidiaries	—	94,387,000
Purchase of Rapid common stock and warrants	—	87,415,000
Acquisition by subsidiaries of their treasury shares and warrants	—	16,505,000
Other—net	9,692,000	8,994,000
	113,359,000	270,081,000
Decrease in Working Capital	**$(79,727,000)**	**$(60,062,000)**
Increase (Decrease) in Working Capital by Components:		
Cash, including certificates of deposit	$ 11,481,000	$(76,936,000)
Trade receivables, less allowances	(1,010,000)	32,433,000
Inventories	(8,285,000)	43,374,000
Other current assets	5,292,000	1,270,000
Short-term debt	(97,878,000)	(73,769,000)
Current maturities of long-term and convertible debt	(27,825,000)	5,186,000
Accounts payable	40,154,000	22,469,000
Accrued expenses and sundry	(14,490,000)	(15,548,000)
Accrued Federal and foreign income taxes	12,834,000	1,459,000
Decrease in Working Capital	**$(79,727,000)**	**$(60,062,000)**

See Schedules and Notes to Financial Statements.

SCHEDULES OF INVENTORIES; PROPERTY, PLANT AND EQUIPMENT; AND PREFERRED STOCKS

	January 31, 1975	January 31, 1974
Inventories:		
At lower of cost or market:		
Principally first-in, first-out and average cost:		
Merchandise at stores, plants and warehouses	$ 96,719,000	$108,687,000
Work in process	34,496,000	33,873,000
Raw materials and supplies	77,481,000	64,839,000
Retail method—at stores and warehouses	130,214,000	175,709,000
At identified cost—merchandise in transit, at warehouses and at restaurants	44,359,000	41,220,000
At cost—whiskey, other spirits and wine:		
In bond	250,767,000	220,424,000
Tax paid	45,338,000	42,907,000
	$679,374,000	**$687,659,000**
Property, Plant and Equipment—at cost:		
Land	$ 9,995,000	$ 9,887,000
Buildings, store properties, warehouses and leased facilities	118,735,000	117,158,000
Furniture, fixtures and leasehold improvements	300,073,000	343,186,000
Machinery and equipment	114,671,000	108,372,000
	$543,474,000	**$578,603,000**

Cumulative Convertible Preferred Stocks
At January 31, 1975:

	Class B Senior ($3) Preferred(a)	$3.15 Preferred(a)	$2.25 Junior Preferred ($2 Par Value)
Number of shares:			
Authorized	2,172,995	1,300,000	397,777
Outstanding(b)	111,072	5,899	280,078
Aggregate par or stated value	$ 6,038,000	$ 361,000	$ 560,000
Aggregate liquidation preference(c)	$11,774,000	$ 643,000	$12,604,000
Conversion rate per share	3.269 for 1	3.557 for 1	3 for 1
Shares of common stock reserved for conversion of stock outstanding	363,094	20,982	840,234

(a) No par value.

(b) At January 31, 1974, the number of shares outstanding of $3 preferred, $3.15 preferred, class C preference (redeemed in February 1974) and $2.25 junior preferred were 119,085, 6,042, 17,214 and 313,081, respectively.

(c) The excess ($18,062,000) over par or stated value imposes no restriction on retained earnings.

See Notes to Financial Statements.

SCHEDULES OF LONG-TERM AND CONVERTIBLE DEBT

	January 31, 1975					1974
	Interest Rate Stated Percent	Interest Rate Effective Percent	Principal Amount	Current Maturities and Unamortized Discount	Long-term Portion	Long-term Portion
Long-term Debt:						
Rapid(a):						
Notes and mortgages payable, due 1975 to 1996(b)	2-14.8	2-14.8	$ 285,670,000	$ 22,229,000	$263,441,000	$285,035,000
Subordinated debentures, due 1994	7	9.3-9.9	118,043,000	30,127,000	87,916,000	87,338,000
Sinking fund subordinated debentures, due 1985 and 1988	6-7.5	8-9.4	396,446,000	77,994,000	318,452,000	316,591,000
			800,159,000	130,350,000	669,809,000	688,964,000
McCrory:						
Notes and mortgages payable, due 1975 to 1993(c)	3.8-11.5	3.8-11.5	65,357,000	2,439,000	62,918,000	32,267,000
Sinking fund and/or subordinated debentures, due 1975 to 1997	5-10.5	5-12.1	284,392,000	64,465,000	219,927,000	222,326,000
			$1,149,908,000	**$197,254,000**	**$952,654,000**	**$943,557,000**
Convertible Debt:						
Rapid(a)-Subordinated debentures, due 1977(d)	5.8	5.8	$ 9,006,000	$ 9,006,000	$ —	$ 9,006,000
McCrory-Subordinated debentures, due 1992 and 1994	6.5	6.5-6.9	4,512,000	145,000	4,367,000	4,368,000
			$ 13,518,000	**$ 9,151,000**	**$ 4,367,000**	**$ 13,374,000**

Long-term and Convertible Debt Maturities at January 31, 1975 before deduction of unamortized discount:

Year Ending January 31,		Five Year Periods Ending January 31,	
1976	$ 34,096,000	1980	$ 308,470,000
1977	92,131,000	1985	215,494,000
1978	36,040,000	1990	378,426,000
1979	35,821,000	1995	230,539,000
1980	110,382,000	2000	30,497,000
	$308,470,000		$1,163,426,000

(a) Includes the parent company and its wholly-owned subsidiaries.

(b) Includes $200,000,000 of notes payable to banks and the Federal Deposit Insurance Corporation at January 31, 1975 and to banks at January 31, 1974 with interest at ¾% above prime rate through December 31, 1974 and ¾% above 110% of prime rate thereafter. Prime rates at January 31, 1975 and 1974 were 9.0% and 9.5%, respectively.

(c) Includes $52,000,000 and $20,300,000 of notes payable to banks and the Federal Deposit Insurance Corporation at January 31, 1975 and to banks at January 31, 1974, respectively, renewable pursuant to a revolving credit agreement at each maturity to June 30, 1976. It is the intention to renew these notes to June 30, 1976.

(d) Convertible into Rapid common stock at $20.91 per share, subject to anti-dilution. Called for redemption on July 1, 1975 (see Note 15).

See Notes to Financial Statements.

Notes to Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include all subsidiaries except McCrory Credit Corporation and Long John International Limited (see Note 15) which are carried at equity and certain other subsidiaries whose assets and operations are not significant.

In November 1972, Rapid was merged into its consolidated subsidiary, Glen Alden Corporation, and the name of the surviving corporation was changed to "Rapid-American Corporation."

The balance sheet accounts of foreign subsidiaries are translated at the rate of exchange in effect at the close of the period except for property, plant and equipment, goodwill, inventories of Schenley Industries. Inc.'s Canadian subsidiaries held for sale in the United States and other non-Canadian markets, certain investments and stockholders' equity accounts which are translated at the rate of exchange in effect when acquired, produced or developed. Revenue and expense accounts are translated at a weighted average of exchange rates in effect during the year, except for depreciation and amortization of property, plant and equipment and the sale and related costs of Schenley's above-mentioned inventories which are translated at the rates of exchange in effect when the respective assets were acquired or produced. Realized and unrealized foreign exchange adjustments of Schenley and International Playtex Company, which were insignificant during the two years ended January 31, 1975, were included in income, except for $267,000 of unrealized adjustments which Schenley deferred during the year ended January 31, 1974. The liability accounts at January 31, 1975 and 1974 include deferred exchange gains of McCrory Corporation amounting to $175,000 and $346,000, respectively.

To facilitate comparisons with the current year, certain amounts in the prior year have been reclassified.

Inventories

Whiskey, other spirits and wine inventories in bond, classified as current assets in accordance with the general practice of the industry, include inventories, which, in the normal course of business, will remain in storage to be aged for periods exceeding one year. It is not possible to state the amount of inventory which will be realized within one year. The inventories in bond are subject to payment of excise taxes upon removal from government controlled premises.

Net sales and cost of goods sold for the years ended January 31, 1975 and 1974 include approximately $351,446,000 and $355,696,000, respectively, of Federal excise taxes, import duties and state liquor taxes.

Property, Plant and Equipment

Depreciation and amortization is generally provided for on the straight-line method over the estimated service lives of the properties.

Excess of Cost of Investments Over Related Equities and Franchises

The excess of cost of investments over related equities which arose from acquisitions prior to October 31, 1970, amounting to $153,141,000 at January 31, 1975, has been recognized as being similar in nature to intangibles which have not declined in value since acquisition. In accordance with Accounting Research Bulletin 43, these excess costs are not amortized so long as there is no diminution in value of the related investments. Franchises, which consist of Schenley contracts to import whiskeys, liquors, and other distilled spirits, have continuing value and accordingly are not being amortized, except for the portion acquired subsequent to October 31, 1970.

Pursuant to certain opinions of the Accounting Principles Board, the excess of cost of investments over related equities which arose from acquisitions subsequent to October 31, 1970, amounting to $184,332,000 (after accumulated amortization of $9,714,000) at January 31, 1975, and the portion of franchises amounting to $15,023,000 (after accumulated amortization of $923,000) at such date acquired from Glen Alden's minority interest subsequent to October 31, 1970 are being amortized on the straight-line method over forty years.

Excess of Net Assets Acquired Over Related Cost

The excess, amounting to $17,169,000 at January 31, 1975 (after accumulated amortization and other adjustments of $7,604,000), of the net assets acquired in the acquisition of J. J. Newberry Co., in 1972, over the aggregate cost was attributed to property accounts and is being amortized over their estimated ten year remaining average useful life (as a reduction of depreciation).

Income Taxes

Investment tax credits for the years ended January 31, 1975 and 1974 in the amount of $1,195,000 and $2,684,000, respectively, were applied as a reduction of the provision for Federal income taxes in the years in which such credits arose.

The cumulative amount of undistributed earnings of subsidiaries on which Rapid or its subsidiaries may be required to recognize income taxes upon distribution amounted to approximately $90,000,000 at January 31, 1975. No provision has been made for taxes that would be payable upon distribution, because these earnings have been indefinitely reinvested.

Research and Development

Research and development costs for the years ended January 31, 1975 and 1974 in the amount of $5,225,000 and $4,263,000, respectively, were expensed as incurred.

2. McCRORY CREDIT CORPORATION

Rapid and certain of its affiliates sell certain customers' accounts receivable to McCrory Credit Corporation, which remits 90% of the amount thereof. The companies accept repurchase of any accounts in default, as defined. The 10% equity of Rapid in sold accounts (the uncollected balances of which amounted to $96,015,000 and $88,050,000 at January 31, 1975 and 1974, respectively) is included in trade receivables in the consolidated balance sheets. Collections in January 1975 and 1974 (payable to McCrory Credit in February) from sold customers' accounts (net of 10% equity) amounting to $23,116,000 and $24,618,000, respectively, have been deducted from trade receivables in the consolidated balance sheets. A condensed consolidated balance sheet of McCrory Credit at January 31, 1975 is summarized below:

Accounts receivable, less unearned discount	$93,122,000	
Cash	12,859,000	
Other assets, less other liabilities	215,000	$106,196,000
Notes payable to banks		88,350,000
Rapid's carrying value (including $11,900,000 subordinated notes payable to Rapid and affiliates)		$ 17,846,000

Net income of McCrory Credit for the years ended January 31, 1975 and 1974 was $188,000 and $389,000, respectively. Rapid's equity therein is included in consolidated net income.

Notes payable to banks of McCrory Credit are payable on demand, and as of January 31, 1975 and 1974 the average interest rates were 10.7% and 9.8%, respectively. The maximum amount of notes payable to banks outstanding at any month end during the years ended January 31, 1975 and 1974 was $88,700,000 and $82,100,000, respectively. The average amounts of notes payable to banks outstanding during these years were approximately $82,327,000 and $74,550,000, respectively and the weighted average interest rates on such debt were approximately 10.9% and 8.1%, respectively.

Under informal agreements, it is expected that McCrory Credit maintain cash balances up to 20% of the lines of credit. These balances are subject to withdrawal at any time. The average monthly cash book balances on deposit with various banks having a credit relationship with McCrory Credit during the year ended January 31, 1975 was approximately $13,761,000.

McCrory Credit has obtained substantially all of its operating funds from unsecured bank borrowings at the prime rate, pursuant to short-term lines of credit. During the last fiscal year, available short-term lines of credit to McCrory Credit were significantly reduced and certain banks have claimed that McCrory Credit was in default under their notes. McCrory Credit is presently negotiating a proposed credit agreement with the banks from which it has loans outstanding, which contemplates borrowings of $78,350,000 due January 31, 1976, and the repayment of the

$88,350,000 loans outstanding with the proceeds of those borrowings and with funds presently held by certain banks as compensating balances. Interest under the proposed credit agreement will be at the higher of ¼ of 1% over 120% of the prime rate of The Chase Manhattan Bank (National Association) or ¼ of 1% over 130.8% of the commercial paper rate (as defined). In addition, the proposed agreement contemplates a quarterly fee of ⅛ of 1% of the outstanding principal amount of the loans, and a quarterly fee, commencing September 1, 1975, equal to ¼ of 1%, multiplied by the number of quarterly fee payment dates having occurred through the date of payment, of the amount of certain outstanding accounts receivables purchased by McCrory Credit. The borrowings under the proposed agreement will be secured by most of the receivables owned by McCrory Credit. The proposed agreement, which contains certain covenants relating to McCrory Credit's financial position and restricts McCrory Credit from engaging in various transactions, including borrowings, investments, guarantees, business combinations, the payment of dividends and the sale of assets, contemplates that before it is consummated, McCrory Credit will borrow an additional $2,000,000 through the issuance of its subordinated promissory notes. In addition, it is the present intention of management of McCrory that McCrory Credit will significantly curtail its operations by the end of the current fiscal year and that the subsidiaries and divisions of Rapid and McCrory that utilize McCrory Credit make other arrangements for the sale of their receivables. Such other arrangements may involve greater costs to Rapid and McCrory and their respective divisions and subsidiaries.

3. INVESTMENT IN S. KLEIN DEPARTMENT STORES, INC.

Management of McCrory Corporation decided to phase out completely the operations of S. Klein Department Stores, Inc., a wholly-owned subsidiary of McCrory. While it is not presently possible to determine the ultimate loss to be incurred in connection with such phase-out, a provision of $58,300,000 for the estimated losses to be incurred in phasing out the S. Klein operations (including $6,700,000 relating to the closing of two S. Klein stores as of April 30, 1974), less related deferred Federal income tax benefit of $26,800,000, has been established, based upon various assumptions which management believes are realistic. Such estimated losses consist of the following:

	(In Thousands)
Write-down of assets to net realizable value	$24,126
Present value of future lease commitments (see Note 13), and real estate taxes, net of estimated recoveries	24,110
Other related costs	5,064
Estimated operating losses during phase-out period	5,000
	58,300
Less estimated deferred Federal income tax benefit (see Note 10)	26,800
Estimated losses	31,500
Less minority interest	11,818
Rapid's equity therein	$19,682

The results of operations of S. Klein for the two years ended January 31, 1975 and the estimated losses provided in the year ended January 31, 1975 for its phase-out have been segregated from continuing operations in the accompanying statements of consolidated operations. The results of operations of S. Klein, before allocation of McCrory's corporate financing and headquarters' administrative expenses and after giving effect to related income tax benefits, for the two years ended January 31, 1975 were as follows:

	1975	1974
	(In Thousands)	
Net sales	$154,046	$167,186
Costs and expenses	169,764	176,757
Loss before related income tax benefits	(15,718)	(9,571)
Income tax benefits	7,545	4,594
Loss	(8,173)	(4,977)
Minority interest	3,066	1,821
Rapid's equity therein	$ (5,107)	$ (3,156)

In addition, the write-off as at January 31, 1974 of the excess ($11,907,000) of the cost of investment in S. Klein at date of acquisition over the related equity, which management concluded at that date no longer had value, has been reclassified from continuing to discontinued operations in the accompanying statement of consolidated operations for the year ended January 31, 1974. The tax benefit, if any, on such write-off will be

recognized if and when realized. Rapid's equity in such write-off was $7,423,000 after minority interest therein of $4,484,000.

As a result of management of McCrory's decision to phase out the operations of S. Klein, the consolidated balance sheet at January 31, 1975 includes the assets and liabilities related to S. Klein at their estimated realizable values classified as follows:

	Carrying Value	Estimated Loss On Disposal	Estimated Realizable Value
	(In Thousands)		
Net Current Assets Held for Disposal:			
Merchandise inventories	$17,032	$ 5,290	$11,742
Other current assets—net	2,151	900	1,251
Accounts payable	(10,506)	—	(10,506)
Total	$ 8,677	$ 6,190	$ 2,487
Net Long-Term Assets Held for Disposal:			
Property and equipment—net	$27,469	$17,836	$ 9,633
Other long-term liabilities—net	(80)	100	(180)
Total	$27,389	$17,936	$ 9,453

In addition, included in "accrued expenses and sundry" and "other non-current liabilities" at January 31, 1975 are $14,558,000, exclusive of $75,000 rental expense of the two S. Klein stores closed in 1974, and $19,541,000, respectively, applicable to the estimated losses arising from the phase-out of S. Klein.

The accompanying consolidated balance sheet at January 31, 1974 has not been restated and includes the assets and liabilities of S. Klein at their carrying value and in their original classification since the applicable amounts are not material.

4. INVESTMENTS IN OTHER SUBSIDIARIES

Consolidated Subsidiaries

McCrory Corporation—Rapid owned at January 31, 1975 and 1974, 3,151,339 shares (62.5% and 62.3%, respectively) of McCrory common stock outstanding. In May 1973 McCrory, through a cash tender offer at $10 per warrant, acquired 1,600,485 of its common stock purchase warrants. This transaction gave rise to $10,307,000 of excess of cost of investment over related equity.

Lerner Stores Corporation—McCrory owned at February 1, 1973, 2,558,815 shares (60.0%) of Lerner common stock outstanding. On September 18, 1973 (accounted for as of August 1, 1973), a wholly-owned subsidiary of McCrory was merged into Lerner. In connection with the merger, which was accounted for as a purchase transaction in which McCrory was the acquiring corporation: (a) $113,668,000 principal amount (discounted value $72,534,000) of McCrory 7¾% sinking fund subordinated debentures due in 1995 and $18,194,000 in cash were exchanged for all of the outstanding shares of Lerner common stock and substantially all of the outstanding Lerner common stock purchase warrants and (b) the Lerner common treasury stock was cancelled. In addition $1,484,000 principal amount (discounted value $947,000) of such debentures were issued upon exercise of Lerner warrants. The aggregate cost of such investment, amounting to $92,416,000, exceeded the equity in underlying net assets acquired from Lerner's minority interest by $53,747,000.

Schenley Industries, Inc.—Rapid owned at February 1, 1973 all of the outstanding Schenley common stock. In February 1973 Schenley redeemed its cumulative preference stock, its only remaining outstanding equity security, for $1,971,000 in cash. This transaction gave rise to $1,902,000 of excess of cost of investment over related equity.

B.V.D. Knitwear, Inc.—At January 31, 1975 and 1974, B.V.D. Knitwear was a wholly-owned subsidiary of The B.V.D. Company, Inc. which is a wholly-owned subsidiary of Glen Alden. Operating losses, before Federal income tax benefit of B.V.D. Knitwear (underwear operations), were $8,066,000 and $5,984,000 for the years ended January 31, 1975 and 1974, respectively. Included in such operating losses are intercompany interest charges of approximately $2,983,000 and $2,148,000, respectively. At January 31, 1975, Rapid's equity in Knitwear, inclusive of net inter-company receivables, approximated $24,300,000. Knitwear also has commitments under non-cancelable lease arrangements aggregating approximately $15,500,000 at January 31, 1975.

Unconsolidated Subsidiary

ILC Industries, Inc.—At December 31, 1971 Glen Alden owned 525,000 shares (70%) of ILC common stock. In October 1972, such investment in ILC was written down to estimated net realizable value in anticipation of its sale and accordingly, the accounts of ILC have been excluded from Rapid's consolidated financial statements from November 1972. Rapid has agreed not to dispose of any of its capital stock of ILC without the prior written consent (which may not be unreasonably withheld) of ILC's bank lenders. ILC incurred a net loss for the year ended December 31, 1974 of approximately $2,300,000 compared to net income of approximately $21,000 for the prior year. From time to time, for the past several years, ILC has borrowed working capital funds from Rapid on an open account basis. Under ILC's bank agreement, repayment of such advances is subordinated to repayment of ILC's bank debt. At January 31, 1975, Rapid's investment in ILC, including loans and advances, aggregated approximately $5,950,000.

5. EXCESS OF COST OF INVESTMENTS OVER RELATED EQUITIES

The aggregate cost of investments exceeded equity in underlying net assets acquired at dates of acquisition as follows:

	January 31,	
	1975	1974
	(In Thousands)	
Glen Alden, Schenley and Playtex	$238,729	$238,729
Lerner	62,501	62,467
McCrory*	29,034	29,034
Joseph H. Cohen & Sons*	10,438	10,438
Cross Country Clothes	3,265	3,265
Other	3,220	4,846
Total**	347,187	348,779
Less accumulated amortization	9,714	4,831
Net	$337,473	$343,948

* Incurred losses in the year ended January 31, 1975, but were profitable in prior years.

** $194,046,000 and $193,903,000, respectively, of the total is being amortized over periods not exceeding forty years (see Note 1).

6. SHORT-TERM DEBT

Short-term debt outstanding at January 31, 1975 and 1974 consisted of notes payable to various banks ($212,368,000 and $125,451,000) and commercial paper ($25,111,000 and $14,150,000), respectively. The notes payable and commercial paper are generally payable ninety days after date of issuance, and as of January 31, 1975 and 1974 the average interest rates were 10.7% and 9.8%, respectively. The maximum amounts of short-term debt outstanding at any month end during the years ended January 31, 1975 and 1974 were approximately $370,000,000 and $275,000,000, respectively. The average amounts of short-term debt outstanding during these years were approximately $300,000,000 and $195,000,000, respectively, and the weighted average interest rates on such debt were approximately 11.6% and 8.8%, respectively. As of January 31, 1975 and 1974 unused lines of credit available for short-term prime rate borrowings aggregated approximately $125,000,000 and $225,000,000, respectively.

Rapid and its subsidiaries under informal compensating balance arrangements are expected to maintain cash balances up to 15% of the unused portion of the lines of credit and up to 20% of the loans outstanding under these lines. During the year ended January 31, 1975, such requirements were satisfied by means of maintaining the required balances or by accrual of additional interest.

The average weekly cash book balances on deposit with various banks having a credit relationship with Rapid and its consolidated subsidiaries during the year ended January 31, 1975 were approximately $60,000,000. The aforementioned balances were subject to withdrawal at any time.

7. LONG-TERM AND CONVERTIBLE DEBT

In connection with certain long-term bank borrowings, under informal agreements it is expected that Rapid and its subsidiaries maintain cash balances ranging up to 20% of the outstanding loans during 1974 (ranging up to 10%, effective January 1, 1975). These balances are subject to withdrawal at any time.

A bank loan agreement contains various covenants relating to Rapid's financial position and also contains restrictions on actions that may be taken by Rapid including, but not limited to, the incurrence of indebtedness, guarantees, lease commitments, the disposition of property, business combinations, capital expenditures, investments and the payment of dividends. Since this loan agreement was entered into, it has been amended twice and the banks have, on several occasions, waived compliance with certain covenants, including working capital requirements and waivers permitting Rapid to pay dividends on January 31, 1975 and in the current fiscal year on its outstanding classes of preferred stock at the rates specified in Rapid's certificate of incorporation and to pay dividends on January 31, 1975 and on April 30, 1975 on its common stock, at the rate of 25 cents and 12½ cents per share, respectively. Any common stock dividends subsequent to April 30, 1975 will require the consent of bank lenders.

During the years ended January 31, 1975 and 1974, Rapid and its subsidiaries purchased sinking fund subordinated debentures to satisfy present and future debt retirement requirements. Included in income (loss) from continuing operations are gains of $3,349,000 and $1,663,000, respectively, resulting therefrom.

On November 26, 1974 McCrory entered into a Credit Agreement, as amended, with nine banks and the Federal Deposit Insurance Company ("FDIC") aggregating $110,250,000 to meet cash requirements as necessary. At January 31, 1975, there were $65,000,000 of notes outstanding ($13,000,000 included in short-term debt) and $45,250,000 of unused lines of credit available. McCrory borrows money evidenced by 90-day promissory notes except that the loan of the FDIC in the amount of $7,000,000 is payable on June 30, 1976.

Interest under the Credit Agreement (11.45% at January 31, 1975) on loans up to an aggregate of $65,000,000 is at the rate of the higher of 1% above 110% of the prime rate of Chemical Bank or 1½% above 110% of the commercial paper rate (as defined) on an annual basis; on loans in excess of $65,000,000, the interest rate is the higher of 110% of the prime rate or ½ of 1% above 110% of the commercial paper rate on an annual basis. The Credit Agreement also provides for a commitment fee of ½% per annum on the average unused portion of the committed lines.

To secure the loans, McCrory granted to the banks and the FDIC security interests in (i) all of the outstanding stock of its Lerner subsidiary, (ii) a demand note of Newberry in the principal amount of $41,500,000 payable to McCrory and (iii) certain accounts receivable of McCrory payable by Newberry. McCrory's obligations under the Credit Agreement are guaranteed by substantially all of its subsidiaries, other than Newberry and McCrory Credit and their subsidiaries.

The Credit Agreement replaced a $70,000,000 revolving credit agreement as well as short-term lines of credit, aggregating $51,500,000, of certain consolidated subsidiaries. At January 31, 1974, there were $43,000,000 of notes outstanding ($22,700,000 included in current liabilities).

The Credit Agreement requires McCrory to maintain a consolidated tangible net worth (as defined) plus subordinated indebtedness (as defined) of not less than $185,000,000. McCrory is further required to maintain consolidated net current assets (as defined) of not less than $130,000,000 on January 31, 1975 and 1976, and not less than $115,000,000 at all other times. McCrory also must maintain a ratio of consolidated current assets (as defined) to consolidated current liabilities (as defined) of not less than 1.80 to 1 on January 31, 1975 and 1976, and of not less than 1.50 to 1 at all other times. McCrory is required to reduce to $52,000,000 its aggregate borrowings under the Credit Agreement for a 30-day period during the last two months of each of its fiscal years in which the loans are outstanding. Since the Credit Agreement was entered into it has been amended and the banks, on several occasions have waived compliance with certain covenants. McCrory believes that by July 1, 1975 it may be necessary to renegotiate, or extend, the terms of the Credit Agreement.

8. CAPITAL STOCK AND WARRANTS

Warrants entitling their holders to purchase shares of Rapid's common stock were outstanding as follows:

Expiration Date	Exercise Price	Number of Warrants January 31, 1975	1974
May 1976	$ 8.50	100,000	100,000
May 1994*	35.00	3,965,883	3,953,333
		4,065,883	4,053,333

* Redeemable at $20.

During the year ended January 31, 1975, Rapid issued 12,550 redeemable warrants pursuant to exercise of options.

During the year ended January 31, 1974, Rapid: (a) through cash tender offers acquired (i) 7,030,730 of its redeemable common stock purchase warrants (expiring in 1994) for $6.50 per warrant, and (ii) 2,423,174 shares of its common stock for $15 per share; (b) redeemed 50,000 of its warrants (expiring in June 1976) at $10 per warrant; and (c) issued 27,725 redeemable warrants pursuant to exercise of options. At January 31, 1975 and 1974, McCrory owned 155,368 redeemable warrants (not included above) and 77,684 shares of Rapid's common stock, which have been included with treasury stock in the accompanying consolidated financial statements.

On May 30, 1973, Rapid's stockholders approved the grant of two non-qualified stock options for the purchase of an aggregate of 300,000 shares of common stock at a purchase price of $25.00 per share to two officers.

On May 30, 1973, Rapid's stockholders approved a qualified stock option plan which provides for the grant of options to purchase 500,000 shares of common stock at not less than 100% of fair market value on the dates of grant. No options were granted during the year ended January 31, 1974. In June 1974, options to purchase 221,900 shares of common stock at $14.00 per share were granted (none were exercised and options for 3,100 shares were cancelled) and at January 31, 1975, options to purchase 218,800 shares were outstanding (54,700 exercisable), with 281,200 available for grant.

Rapid's 1964 qualified stock option plan authorized the grant of options to purchase 200,000 shares of common stock at not less than 100% of fair market value on the dates of grant. No options were outstanding at January 31, 1974 and this plan expired in August 1974. During the two years ended January 31, 1975 no options were issued or exercised under this plan.

The former Glen Alden 1965 option plan, which was assumed by Rapid upon the effectiveness of the Rapid-Glen Alden merger in November 1972, authorized the grant of options to purchase common stock and warrants. Option data were as follows:

	Number of Shares	Redeemable Warrants
Outstanding,		
February 1, 1973	233,490	667,162
Exercised	(9,694)	(27,725)
Cancelled	(66,096)	(188,850)
Outstanding,		
January 31, 1974	157,700	450,587
Exercised	(4,392)	(12,550)
Cancelled	(24,018)	(68,625)
Outstanding,		
January 31, 1975	129,290	369,412
At January 31, 1975:		
Exercisable	122,646	350,427
Available for grant	261,835	748,108

Option prices range from $5.125 to $13.75 for the year ended January 31, 1974 and $5 125 to $11.625 for the year ended January 31, 1975.

Rapid does not intend to grant additional options under the 1965 plan.

During the year ended January 31, 1975, 8,013 shares of $3 preferred stock, 143 shares of $3.15 preferred stock and 33,003 shares of $2.25 junior preferred stock were converted into 125,679 shares of Rapid common stock. During the year ended January 31, 1974, 4,195 shares of $3 preferred stock, 621 shares of $3.15 preferred stock and 83,405 shares of $2.25 junior preferred stock were converted into 266,066 shares of Rapid common stock.

At January 31, 1975 there were 138,610 shares of McCrory common stock reserved for conversion of McCrory preferred and preference stocks and debentures, 270,407 shares reserved for issuance under stock option and bonus plans and 669,726 shares reserved for exercise of common stock purchase warrants outstanding.

9. PROVISION FOR DISPOSITION OF CERTAIN OPERATIONS

In April 1975, management of Rapid decided to dispose of certain consumer products operations including Anvil Brand, Incorporated, Maria Mills, Inc., Friedman Marks, Inc., Meadow Sportswear and Almar Manufacturing Corporation. Accordingly, included in the accompanying statement of consolidated operations for the year ended January 31, 1975 is a provision of approximately $10,441,000 (before a related deferred income tax benefit of $4,115,000) for the estimated losses expected to be incurred upon the disposition of such operations. The provisions for such estimated losses and for the losses from operations of such companies represent a disposal of part of a line of a business (not a discontinued operation) and accordingly, they have been presented in the statements of consolidated operations as a deduction from income from continuing operations. Net sales of such operations were $42,486,000 and $48,761,000 and net loss from operations was $1,907,000 and $725,000, respectively, for the years ended January 31, 1975 and 1974. Net assets of such operations were $22,211,000 and $29,745,000, respectively, at January 31, 1975 and 1974.

10. INCOME TAXES (BENEFIT)

Federal and foreign income taxes (benefit) related to continuing operations for the years ended January 31, 1975 and 1974 are comprised of Federal income taxes (benefit) of $(19,027,000) and $22,170,000 (including deferred taxes of $(20,840,000) and $9,892,000) and foreign income taxes of $9,503,000 and $11,139,000 (including deferred taxes of $884,000 and $1,736,000), respectively.

During the year ended January 31, 1975 Rapid recorded estimated future deferred income tax benefits of $24,938,000 because, in the opinion of management of Rapid, realization of this amount is assured beyond a reasonable doubt based upon Rapid's ability to generate sufficient future taxable income through operations, possible sales of certain assets, and from other sources.

At January 31, 1975 Rapid has an estimated net operating loss carry-over of approximately $53,500,000 which will expire in the year ending January 31, 1980.

At January 31, 1975, McCrory recorded $19,345,000 (in addition to reversals of previously recorded net deferred tax credits of $15,000,000, which is the estimated amount of such credits expected to reverse within the next five years) as estimated future deferred Federal income tax benefits resulting from the operating losses and the provision for losses on the complete phase-out of S. Klein reported in the year ended January 31, 1975 (see Note 3). In the opinion of McCrory's management, realization of such amount is assured beyond a reasonable doubt because of McCrory's ability to generate sufficient future taxable income through operations and from other sources to offset the loss carry-forwards.

At January 31, 1975, McCrory has an estimated net operating loss carry-over of approximately $17,000,000 which will expire in the year ending January 31, 1980. In addition, estimated operating losses of approximately $58,000,000 are expected to result from the phase-out of the S. Klein operations. The principal portion of these estimated losses is expected to be reported by McCrory for Federal income tax purposes during the three years ending January 31, 1978 and, accordingly, will be available to reduce taxable income, for the most part, through January 31, 1983, with additional amounts being reported in years subsequent to January 31, 1978.

The statements of consolidated operations include the results of operations of certain subsidiaries engaged in business in Puerto Rico. The subsidiaries were granted exemptions, with certain reservations, from Commonwealth of Puerto Rico income taxes covering periods of ten to seventeen years, the last of which expire in 1986. If the exemptions had not been granted, the provision for income taxes for the years ended January 31, 1975 and 1974 would have been greater by approximately $2,757,000 and $1,688,000, respectively.

Deferred income taxes (benefit) relating to continuing operations result from the tax effects of items reported in different periods for tax and financial reporting purposes. The sources of these differences from continuing operations for the two

years ended January 31, 1975 and the tax effect of each were as follows:

	Year Ended January 31,	
	1975	1974
Recognition of estimated future deferred income tax benefits	$(24,938,000)	—
Reinstatement of deferred taxes upon realization of net operating loss carry-overs	—	$ 8,377,000
Foreign tax credits	5,235,000	(5,474,000)
Investment tax credits	(1,195,000)	(1,735,000)
Provision for disposition of certain operations	(4,115,000)	—
Excess of tax over book depreciation	1,593,000	3,885,000
Amortization of debt discount	2,373,000	2,605,000
Deferred systems development costs	(534,000)	1,440,000
Reduction in reserve for store closing programs	1,617,000	1,340,000
Other	8,000	1,190,000
Total	$(19,956,000)	$11,628,000

Total income tax expense (benefit) relating to continuing operations for the years ended January 31, 1975 and 1974 amounted to $(9,524,000) and $33,309,000, respectively, representing effective income tax rates of (36.0)% and 39.9%, respectively. These amounts are less than the amounts of $(12,711,000) and $40,059,000, respectively, computed by applying the statutory U. S. Federal income tax rate of 48% to income (loss) from continuing operations before Federal and foreign income taxes and minority interest. The reasons for the variances from the statutory rate are as follows:

	Percent of Pre-tax Income (Loss) Year Ended January 31,	
	1975	1974
Statutory rate	(48.0)%	48.0%
Increase (decrease) in income tax rate resulting from:		
Adjustment of foreign tax credits	19.7	—
Write-off of excess cost	3.2	—
Investment tax credit	(4.5)	(3.2)
Tax exempt income from Puerto Rico sources	(14.0)	(2.8)
Amortization of excess of cost of investments over related equities and other intangibles	10.0	2.6
Foreign income	4.7	(1.9)
Amortization of excess of equity over cost of investment	(4.4)	(1.4)
Other	(2.7)	(1.4)
Actual income tax rate	(36.0)%	39.9%

11. PENSION AND RETIREMENT PLANS

Rapid and its subsidiaries have various contributory and non-contributory pension and retirement plans covering eligible employees. The provision for pension costs for continuing operations under the plans was $5,872,000 and $5,557,000 for the years ended January 31, 1975 and 1974, respectively. It is the general policy to fund pension cost accrued as required. As of January 31, 1975, the actuarially computed value of vested benefits under certain of the plans exceeded the total of the related pension funds and balance sheet accruals by approximately $2,900,000. Unfunded prior service cost amounted to approximately $13,300,000 at January 31, 1975, substantially all of which is being funded over various periods not exceeding thirty years.

Effective January 1, 1976, Rapid and its subsidiaries will be required to comply with the participation, vesting and funding requirements of the Employee Retirement Income Security Act of 1974. No evaluation has been completed as to the effect of such Act upon the pension and retirement plans of Rapid and its subsidiaries.

12. INCOME (LOSS) PER SHARE OF COMMON STOCK

Primary income (loss) per share is based on the weighted average number of common shares outstanding during each year and gives effect to the assumed exercise and conversion of common stock equivalents. In addition, when appropriate, it has been assumed that a portion of the proceeds from such assumed exercises, when dilutive, were applied to the purchase of common stock and the balance applied to reduce outstanding debt. Rapid's equity in preferred dividend requirements of its consolidated subsidiaries ($710,000 and $734,000 for the years ended January 31, 1975 and 1974, respectively) has been deducted in determining net income (loss) applicable to common stockholders and primary income (loss) per share amounts.

Fully diluted income (loss) per share gives effect to the assumed conversion of dilutive convertible securities into common stock and to the assumed exercise of dilutive stock options and warrants with a portion of the proceeds therefrom applied

to the purchase of common stock and the balance applied to reduce outstanding debt.

Reported loss per share assuming full dilution cannot reduce primary loss per share. For the year ended January 31, 1975, the above-mentioned assumed conversions of convertible securities and exercise of stock options and warrants resulted in anti-dilution; accordingly, loss per share assuming full dilution has not been presented in the statement of consolidated operations for such year.

13. LEASE COMMITMENTS

Rapid and its subsidiaries operate principally in leased premises. The basic terms of the leases generally range from 10 to 40 years and provide for the payment of additional rentals based upon percentages of sales, plus in certain instances, real estate taxes, insurance and maintenance costs. Many of the leases are noncapitalized financing leases, as defined by the Securities and Exchange Commission.

Rent expense, net of minor sublease income, is as follows:

	Year Ended January 31, 1975	1974
	(In millions)	
Basic rents:		
Noncapitalized financing leases	$ 42.2	$37.9
Other	47.9	45.9
Contingent rents	10.8	9.8
	$100.9	$93.6
Continuing operations	$ 92.0	$84.2
Discontinued operations	8.9	9.4
	$100.9	$93.6

The minimum rental commitments, net of minor sublease income, in effect at January 31, 1975 are as follows:

Years Ending January 31,	Continuing Operations Financing Leases	Continuing Operations Total(a)	Discontinued Operations Financing Leases	Total(a)
	(In Millions)			
1976	$ 33.6	$ 69.4	$ 8.0	$ 77.4
1977	33.3	66.5	7.9	74.4
1978	32.4	63.4	7.8	71.2
1979	31.2	60.4	7.8	68.2
1980	29.9	57.3	7.8	65.1
1976-1980	160.4	317.0	39.3	356.3
1981-1985	120.6	235.5	38.6	274.1
1986-1990	76.7	154.1	29.8	183.9
1991-1995	44.9	79.6	21.2	100.8
Thereafter	29.2	40.1	13.4	53.5
Total	$431.8	$826.3	$142.3	$968.6

(a) Includes financing and other leases.

Total minimum commitments, present values of noncapitalized financing leases, and the weighted average and range of interest rates used in computing present values of financing leases are as follows:

	Continuing Operations			
	Real Property	Equipment and Fixtures	Discontinued Operations	Total
	(Dollar Amounts In Millions)			
At January 31, 1975:				
Total minimum rental commitments	$781.0	$45.3	$142.3	$968.6
Total noncapitalized financing lease commitments	$391.4	$40.4	$142.3	$574.1
Present values of noncapitalized financing lease commitments	$231.5	$28.5	$76.2	$336.2
Range of interest rates used in computing present values	3.5% to 12.8%	5.0% to 12.8%	3.5% to 10.0%	3.5% to 12.8%
Weighted average interest rates used in computing present values	6.3%	6.5%	7.1%	6.3%
At January 31, 1974:				
Total minimum rental commitments	$779.4	$41.9	$157.2	$978.5
Total noncapitalized financing lease commitments	$404.8	$24.7	$157.2	$586.7
Present values of noncapitalized financing lease commitments	$225.1	$20.3	$ 82.1	$327.5
Range of interest rates used in computing present values	3.5% to 10.5%	5.0% to 9.5%	3.5% to 10.5%	3.5% to 10.5%
Weighted average interest rates used in computing present values	6.3%	6.0%	6.8%	6.3%

If all leases identified as noncapitalized financing leases had been capitalized, the effect on net income (loss) would not have been significant.

14. OTHER COMMITMENTS AND CONTINGENCIES

There are a number of lawsuits and claims, including antitrust actions, pending against Rapid and its subsidiaries. Management, based upon opinions of counsel, is of the opinion that the ultimate liability resulting from such lawsuits and claims, if any, will not materially affect the consolidated financial position of Rapid and its subsidiaries.

At January 31, 1975 Rapid was guarantor of notes and other obligations or remained contingently liable under certain long-term leases on properties sold in the approximate amount of $135,000,000.

15. SUBSEQUENT EVENTS

(i) On April 14, 1975 Rapid's Board of Directors announced its approval of an agreement in principle for the previously announced proposed merger of McCrory with a wholly-owned subsidiary of Rapid. McCrory common stockholders (other than Rapid) are to receive one-half share of Rapid common stock for each share of McCrory common stock held. The merger is subject to a number of conditions, including the execution of a definitive agreement between the parties, consent of bank lenders and obtaining requisite approval from stockholders of Rapid and McCrory. Based on the capitalization of McCrory at January 31, 1975, the merger will involve the

issuance by Rapid of approximately 950,000 shares of Rapid common stock to McCrory stockholders (other than Rapid).

(ii) Rapid and Esmark, Inc. ("Esmark") are engaged in negotiations regarding Esmark's acquisition of Playtex as of October 31, 1975. It is contemplated that the terms of the proposed agreement will provide that Rapid will be entitled to terminate the agreement if it has not made satisfactory arrangements with, or received approvals from, its bank lenders, and that Esmark will have an option to terminate the agreement at its sole discretion at any time on or before June 30, 1975. The proposed purchase price is $210,000,000, consisting of $70,000,000 to be paid in cash at the closing with the balance principally in Esmark senior subordinated 9% notes, payable in installments over a seven year period commencing November 1, 1976, and/or other securities of Esmark. These proposed terms are subject to change. It is contemplated that the purchase price will be subject to increase or decrease to the extent the net assets transferred at October 31, 1975 are greater or less than approximately $100,600,000 and will also be subject to reduction on a dollar for dollar basis to the extent the consolidated net income of Playtex (as defined) during the year ended January 31, 1976 is less than $20,000,000. At January 31, 1975, the net assets to be transferred were approximately $104,700,000. It is the present intention of Rapid to use the net proceeds from the Playtex sale primarily to reduce long-term debt.

The condensed combined balance sheets of Playtex at January 31, 1975 and 1974 are summarized below:

	January 31, 1975	January 31, 1974
	(In Thousands)	
Current assets	$130,016	$114,325
Property, plant and equipment—net	31,835	29,073
Investments and other assets	2,909	2,846
	164,760	146,244
Current liabilities	53,821	43,341
Long-term debt, less current maturities	4,313	4,732
Deferred income taxes and other non-current liabilities	1,879	4,368
	60,013	52,441
Net assets, net of intercompany receivables to Rapid	$104,747	$ 93,803

Combined net sales of Playtex were $302,498,000 and $304,556,000 and combined net income was $23,115,000 and $33,466,000 for the years ended January 31, 1975 and 1974, respectively.

(iii) On April 29, 1975, Rapid announced that it will call for the redemption of its 5¾% convertible subordinated debentures on July 1, 1975, at the principal amount thereof, together with the regular quarterly interest accrued to the redemption date.

(iv) Schenley is presently negotiating the possible sale of Long John.

(v) On April 29, 1975, Rapid's Board of Directors authorized a proposed additional investment of approximately $40,000,000 in McCrory. This investment is contemplated to be in the form of a subordinated note, junior to all trade debt, and convertible into a redeemable junior preferred stock. The investment is subject to approval of Rapid and McCrory bank lenders. The authorization of the junior preferred stock is also subject to the approval of the McCrory stockholders.

HASKINS & SELLS

CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY

NEW YORK, NEW YORK 10004

AUDITORS' OPINION

The Board of Directors and Stockholders
of Rapid-American Corporation:

We have examined the consolidated financial statements of Rapid-American Corporation and subsidiaries for the years ended January 31, 1975 and 1974. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain subsidiaries whose contribution to consolidated revenues (including revenues of discontinued operations) was approximately 20% and 19%, respectively, for the years ended January 31, 1975 and 1974. These statements were examined by other accountants whose reports thereon have been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon such reports of the other accountants.

Our opinion dated April 24, 1974, with respect to the consolidated financial statements of Rapid-American Corporation and subsidiaries for the year ended January 31, 1974 was qualified subject to the success of McCrory management's program to improve the operating results of S. Klein Department Stores, Inc. As discussed in Note 3, McCrory's management has decided to phase out completely the operations of S. Klein and has provided for the estimated losses expected to be incurred in such phase-out, of which Rapid's equity, after Federal income tax benefits, amounts to $19,682,000. This provision is based upon various assumptions which management believes are realistic, but the ultimate loss is dependent upon future events.

In our opinion, subject to adjustments, if any, which may result from the ultimate resolution of the matter referred to in the preceding paragraph and based upon our examination and the reports of other accountants, the accompanying consolidated balance sheets and statements of consolidated operations, consolidated stockholders' equity and changes in consolidated financial position present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Haskins & Sells

April 30, 1975

PRINCIPAL PUBLICLY TRADED SECURITIES (Symbol: RPD)

Security	Transfer Agent(s) or Trustee*	Stock Exchange Listing(s)	Outstanding** January 31, 1975
Common Stock	Chemical Bank and The Fidelity Bank (Philadelphia, Pa.)	New York Cincinnati Pacific	6,930,659 shs.
Redeemable Warrants, expiring 1994	Chemical Bank	American Pacific	4,121,251 wts.
$2.25 Cumulative Convertible Junior Preferred Stock	Chemical Bank	New York	280,078 shs.
Class B Senior Cumulative Convertible ($3) Preferred Stock	Marine Midland Bank—New York	New York	111,072 shs.
5¾% Convertible Subordinated Debentures, due 1977	Sterling National Bank & Trust Company of New York	American	$ 9,005,640 ***
7½% Sinking Fund Subordinated Debentures, due 1985	Bradford Trust Company	New York	$ 80,034,419
6% Sinking Fund Subordinated Debentures, due 1988	Marine Midland Bank—New York	New York	$357,293,300
7% Subordinated Debentures due 1994 (1969 & 1972 issues)	American Bank & Trust Company	New York	$118,042,564

* All located in New York City except where otherwise indicated.

** In some instances includes amounts owned by subsidiaries of Rapid-American.

*** Called for redemption on July 1, 1975.

PRINCIPAL SUBSIDIARIES AND DIVISIONS

Schenley Industries, Inc.
International Playtex Company
Joseph H. Cohen & Sons
Cross Country Clothes
Leeds Travelwear
The B.V.D. Company, Inc.
McCrory Corporation:
- Lerner Stores Corporation
- OTASCO Stores
- McCrory, McLellan, H.L. Green and J.J. Newberry Variety Stores
- Britts Department Stores

rapid-american corporation

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